DOCKET SECTION

BEFORE THE

POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997 Docket No. R97-1

DOUGLAS F. CARLSON
TRIAL BRIEF

February 6, 1998

I, Douglas F. Carlson, hereby submit my trial brief for Docket No. R97-1.

Respectfully submitted,

Douglas F. Carlson

DOUGLAS F. CARLSON

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon the required participants of record in accordance with section 12 of the *Rules of Practice* and section 3(B) of the *Special Rules of Practice*.

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February 6, 1998
Emeryville, California

TABLE OF CONTENTS

I. INTRODUCTION

The Postal Service proposes a rate of 21 cents for stamped cards plus a two-cent stamped-card fee, for a total rate and fee of 23 cents. Stamped cards, however, incur total manufacturing and processing costs of only 7.6 cents. Tr. 13/6993 (DFC/USPS-T5-2(b), Attachment I). This unprecedented 303-percent cost coverage is unfair and inequitable. *See* DFC/USPS-4.

I have proposed a new rate category for stamped cards. Since stamped cards incur costs of only 7.6 cents while private post cards incur costs of 18.7 cents (Tr. 13/6993), I propose a rate of 20 cents for stamped cards and elimination of the separate stamped-card fee. DFC-T-1 at 7.

In my testimony, I also discuss service problems with post-office boxes and return receipt. The Commission should deny higher-than-average fee increases for these services until the Postal Service provides evidence about the quality of service that it is providing.

II. STAMPED CARDS

A. THE POSTAL SERVICE'S PROPOSED 23-CENT RATE AND FEE FOR STAMPED CARDS IS UNFAIR, INEQUITABLE, AND ECONOMICALLY INEFFICIENT.

1. The Postal Service's proposed 23-cent rate and fee for stamped cards is unfair and inequitable.

The Postal Service proposes to charge customers 23 cents to purchase and mail a stamped card, while customers who mail private post cards would pay only 21 cents. The Postal Service's proposal is unfair and inequitable because stamped cards cost considerably less to process than private post cards. Specifically, stamped cards cost 7.6 cents to manufacture and process, while private post cards cost 18.7 cents to process. Tr. 13/6993. Thus, the Postal Service is unjustifiably attempting to extract higher fees from customers who use stamped cards — many, if not most, of whom are small businesses and individuals. In contrast, my proposal is fair and equitable because it provides a lower rate for stamped cards, the lower-cost product. The Commission should protect small businesses and individuals and reject the Postal Service's ill-conceived proposal.

2. The Postal Service's proposed 23-cent rate and fee for stamped cards sends customers the wrong price signal and leads to economic inefficiency.

Society's resources would be used more efficiently if customers mailed stamped cards instead of private post cards, since stamped cards incur significantly lower processing costs than private post cards. Unfortunately, the Postal Service's proposal would encourage customers to use private post cards, at a rate of 21 cents, instead of stamped cards, at a combined rate and fee of 23 cents. (Although customers who mail private post cards also must purchase the card, 4" x 6" index cards are available for less than one cent at office superstores. DFC-T-1 at 4.) Since the Postal Service's proposal would send customers the wrong price signal, encouraging them to use private post cards instead of less-expensive-to-process stamped cards, the Postal Service likely would incur higher total costs for processing cards. My proposal, in contrast, sends the correct price signal by offering a discount for stamped cards, thus encouraging customers to use stamped cards instead of private post cards. My proposal promotes economic efficiency.

B. THE DIFFERENTIAL IN PROCESSING COSTS EXISTS BECAUSE STAMPED CARDS ARE MORE COMPATIBLE WITH AUTOMATION THAN PRIVATE POST CARDS.

1. Stamped cards cost less to process than private post cards because stamped cards are more compatible with automation than private post cards.

As I explained in my testimony at 2–3, stamped cards meet all requirements for automation compatibility. DFC-T-1 at 2–3. For example, unlike many private post cards, stamped cards meet all automation requirements for size, aspect ratio, thickness, flexibility, opacity, paper fibers, and background reflectance. *Id.* Many private post cards are too slick or glossy, thus preventing bar codes from printing on the front and back side; in contrast, stamped cards are printed on paper stock that readily accepts bar codes. *Id.* Moreover, stamped cards are less likely to have messages or other printing in the OCR read area or the bar-code clear area because stamped cards are not designed to have non-address information on the address side, while private post cards frequently have messages and other printing on the address side. *Id.* at 3. Thus, by design and use, stamped cards are more likely to be compatible with automated processing than private post cards. *Id.*

2. The Postal Service's suggestion that the cost data may not be accurate is a red herring.

In the discovery process, the Postal Service has suggested that the cost data for stamped cards may not be reliable. *See, e.g.,* USPS/DFC-T1-19 and DFC/USPS-T5-12. In reality, however, witness Alexandrovich has admitted that "no studies or other analyses have concluded that the reliability of the cost data for post cards" contained in Attachment I to DFC/USPS-T5-2(b) "has been affected in any significant way by the misidentification of stamped cards and other cards by IOCS data collectors." DFC/USPS-T5-12. Thus, the Postal Service's suggestion that this cost differential is illusory due to data-collection errors is pure speculation. In fact, the automation compatibility of stamped cards *explains* the cost differential reflected in Postal Service cost data. The cost differential is real, and customers who mail stamped cards should receive a rate discount.

3. FY 1996 cost data are sufficient for evaluating my proposed rate for stamped cards.

My testimony cites FY 1996 cost data to support the proposed 20-cent rate for stamped cards. After 1996, the Postal Service stopped differentiating between stamped cards and private post cards in collecting cost data for cards (DFC/USPS-T5-2(c)), perhaps in an attempt to obscure the large cost differential. Although costs presumably have risen in the year since 1996, a rise in costs would only reduce slightly the generous 263-percent cost coverage that my proposal allows. DFC-T1-1 at 6 and 8. First, between FY 1995 and FY 1996, costs for stamped cards rose just 0.1 cent, from 7.5 to 7.6 cents. Docket No. MC96-3 USPS-T-5C at 10; Tr. 13/6993. Thus, to the extent that one year indicates a trend, costs for stamped cards rise only one percent per year. Second, I rely on the cost differential between stamped cards and private post cards to justify my proposal. The cost differential rose from 8.7 cents to 11.1 cents in just one year, so to the extent that one year indicates a trend, the cost differential has increased even further since 1996. *Id.* Third, witness Needham has testified that a 254-percent cost coverage for stamped cards would be sufficient, so even if costs for stamped cards have increased more than one percent, the cost coverage likely will remain above or near 254 percent. Tr. 3/754. If the Commission recommends and the Postal Service implements a new rate category for stamped cards, the Postal Service can resume separate data collection for stamped cards and private post cards, as no evidence exists to suggest that data collectors cannot properly distinguish between stamped cards and private post cards. *See* DFC/USPS-T5-5(d), DFC/USPS-T5-11, and DFC/USPS-T5-15 (which demonstrates that even a person who has not been trained as a data collector can properly distinguish between stamped cards and private post cards); *see also* DFC/USPS-T5-8, which reveals that data collectors have been trained to make distinctions and judgments much more complicated than those required to identify stamped cards.

C. MY PROPOSED RATE CATEGORY FOR STAMPED CARDS SATISFIES THE STATUTORY PRICING CRITERIA.

1. A 20-cent rate for stamped cards is fair and equitable.

My proposed rate category for stamped cards will lead to a rate structure that is more fair and equitable under 39 U.S.C. §§ 3622(b)(1) and 3623(c)(1) than the rate structure that the Postal Service proposes. Stamped cards incur costs of 7.6 cents, while private post cards incur costs of 18.7 cents. Customers should pay less to mail a stamped card than a private post card. Under my proposal, customers would pay 20 cents for a stamped card and 21 cents for a private post card. In contrast, the Postal Service proposes a rate and fee of 23 cents for stamped cards and a rate of only 21 cents for private post cards. My proposal clearly is more fair and equitable than the Postal Service's proposal. In fact, the only remaining question concerning fairness and equity is whether the rate for stamped cards should be even lower than 20 cents.

2. A 20-cent rate for stamped cards properly considers the value of the service under §§ 3622(b)(2) and 3623(c)(2).

The preprinted postage on stamped cards provides value to customers. On the other hand, the preaffixed postage can be a disadvantage for customers who spoil stamped cards or who wish to print a large quantity of stamped cards for use over a long period of time and would prefer to pay the postage as the cards are used rather than at the time of printing. *See* USPS/DFC-T1-7. On balance, the preaffixed postage probably does justify a higher cost coverage for stamped cards than for private post cards. My proposed cost coverage of 263 percent is higher than the overall cost coverage for cards — 184 percent. I question, however, why stamped cards should have a higher cost coverage than letters (the cost coverage for letters is 200 percent), since letters carry more correspondence and offer greater privacy than cards. *See* DFC-T-1 at 9 and USPS-T-30 at 22. In any event, a 263-percent cost coverage certainly does not *understate* the value of stamped cards; indeed, witness Needham testified that a 254-percent cost coverage would be sufficient. Tr. 3/754.

3. My proposal prevents an unjustified burden on the general public and businesses.

Section 3622(b)(4) requires the Commission to consider the effect of a rate increase on the general public and businesses. Households and small businesses use stamped cards for a variety of correspondence. The Postal Service's proposal for a 303-percent cost coverage fails to explain why these users should be subject to the highest cost coverage in the history of postal ratemaking. *See* DFC-T-1 at 2. My proposal lowers this cost coverage and, therefore, prevents an unjustified rate increase. The Commission must carefully consider the unfair burden that the Postal Service's proposal would create for small mailers and reject the Postal Service's proposed two-cent fee for stamped cards.

4. My proposed rate category for stamped cards is highly desirable for customers and the Postal Service under § 3623(c)(5).

Section 3623(c)(5) requires the Commission to consider "the desirability of special classifications from the point of view of both the user and of the Postal Service[.]" A 20-cent rate for stamped cards will provide individuals and small businesses with a rare opportunity to share directly in the benefits of automation and to reduce their postage expenses by using stamped cards instead of private post cards. To date, most automation discounts have been available only to large mailers. Customers who prepare automation-compatible First-Class Mail reduce Postal Service processing costs, but these customers do not receive a postage discount. The cost savings are passed along to these customers mainly through delayed or smaller rate increases. The Commission and Postal Service should seize the opportunity that my proposal presents to pass along automation discounts directly to individuals and small businesses who choose to use stamped cards. (I doubt that the public will benefit in any significant way from the Postal Service's awkward PRM proposal. *See* DFC-T-1 at 4.) The Postal Service certainly would receive favorable publicity if it adopted my rate category. Moreover, since, on average, stamped cards have a significantly higher cost coverage than private post cards (263 percent versus 112 percent), Postal Service net revenues likely would increase if some customers responded to the lower rate for stamped cards by shifting from private post cards to stamped cards. For these reasons, my proposed rate category is highly desirable under § 3623(c)(5).

III. POST-OFFICE BOXES

A. THE POSTAL SERVICE HAS FAILED TO JUSTIFY A FEE INCREASE FOR GROUP C POST-OFFICE BOXES.

1. The Postal Service's proposal would impose an unfair 10.6- to 12.5-percent fee increase on Group C boxholders.

The Postal Service proposes fee increases ranging from 10.6 to 12.5 percent for Group C, size 1, 2, and 3 boxes. *See* USPS-T-39 at 59. Fees for Group C, size 1 boxes would increase by 12.5 percent. *Id.* As I explained in my testimony at 12–13, this increase would be nearly *triple* the 4.5-percent average increase that the Postal Service seeks in this case. DFC-T-1 at 12–13. Almost 95 percent of all boxes in Group A, B, or C are Group C, size 1, 2, or 3, and nearly 63 percent of all Group A, B, or C boxes are Group C, size 1. USPS-T-24 at 12, Table 7A. The Postal Service has failed to explain why 8.3 million boxholders should be singled out for this sharp fee increase. This large fee increase would be unfair to Group C boxholders.

The Postal Service apparently bases its case for a fee increase on the value of box service, claiming that boxholders receive an "extremely high value[] of service." USPS-T-39 at 66. However, the Postal Service's case relies on recycled evidence that the Commission found "unconvincing" in Docket No. MC96-3. *See* DFC-T-1 at 12–13 and PRC Op. MC96-3 at 64. The Postal Service has offered no evidence to explain why boxholders should bear a disproportionately large burden in this case.

2. *I am the only party who has introduced any evidence on the quality of box service, and my evidence suggests that some boxholders do not receive a high value of service.*

Customers place a higher value on receiving their mail early in the day rather than later in the day. *See* DFC-T-1 at 13–14 and Tr. 3/655; *see also* USPS/DFC-T1-24 and 26. Witness Needham has cited the desire to receive mail early in the day as an element of the high value of box service, but my testimony suggests that box customers do not necessarily receive their mail early in the day, even in urban areas where potential constraints caused by transportation or other factors seemingly would allow for earlier delivery. DFC-T-1 at 13–14 and USPS/DFC-T1-25. Moreover, delivery to boxes may be inconsistent, thus requiring customers to make more than one trip each day to the post office to obtain their mail. DFC-T-1 at 14–15. My post office in Berkeley routinely ignores its 11:00 AM posted cutoff time for delivering box mail, causing me significant inconvenience, especially on Saturdays. *Id.* Customers also face long lines to pick up large items. *Id.* at 15–16. And, some postal facilities require the window clerks to distribute the box mail, thus potentially preventing box customers from receiving their mail when lines for window service are long. *Id.* at 16.

In my experience, box customers often do not receive a high value of service. The Commission should require the Postal Service, as the proponent of a sharp increase in the fees for box service, to present reliable evidence on the value of service that box customers actually receive before possibly recommending a large fee increase. The Postal Service has failed to provide this evidence, so a fee increase for Group C boxes of greater than 4.5 percent is unwarranted.

IV. RETURN RECEIPT

A. FOUR SPECIAL CHARACTERISTICS COMPRISE THE VALUE OF RETURN-RECEIPT SERVICE.

In DFC/USPS-T40-1, I posed a hypothetical question to witness Plunkett in which a customer desired to obtain proof of delivery of a letter. For this question, I asked witness Plunkett to suppose that the customer had two choices: (1) purchase return-receipt service from the Postal Service or (2) not purchase return-receipt service but instead enclose a self-addressed, stamped post card inside the letter; this card would request that the recipient sign the post card, indicate the date of delivery and the address of delivery (if the address was different), and mail the card back to the sender promptly. Option (1) would cost the sender $1.10, while option (2) would cost only 20 cents (plus the cost of the card). Witness Plunkett then explained the reasons why a customer might prefer option (1) over option (2). According to witness Plunkett, the following characteristics of return-receipt service contribute to the value of the service:

- By acting as a disinterested third party in confirming the date on which a piece of mail was delivered, the Postal Service removes an opportunity for a recipient to benefit from providing false information about the date of delivery (Tr. 3/848–50);
- The Postal Service retains possession of the mail piece until the recipient signs the return receipt (Tr. 3/865); and
- *Postal Operations Manual* § 822.112 requires the Postal Service to mail the return receipt back to the sender within one work day after delivery (Tr. 3/869).

In addition, I have identified a fourth procedure that would contribute to the value of return-receipt service: DMM § D042.1.7(b), if followed, prevents the recipient from opening the envelope until the recipient has signed and printed his name on the return receipt and handed the return receipt back to the USPS employee. USPS/DFC-T1-13.

These four characteristics distinguish return-receipt service, priced at $1.10, from my hypothetical alternative, which would cost the sender only 20 cents.[1]

B. SERVICE PROBLEMS PLAGUE RETURN-RECEIPT SERVICE AND PREVENT CUSTOMERS FROM RECEIVING THE FULL VALUE OF THE SERVICE.

The Postal Service routinely ignores its own regulations and operating procedures in delivering return-receipt mail. By failing to follow the procedures that give rise to the special characteristics of return-receipt service that I have described in section IV.A., *supra,* the Postal Service denies customers the service for which they paid and, often, renders return-receipt service little more than an overpriced version of my hypothetical 20-cent alternative.

Many customers use return-receipt service because they believe that the Postal Service will act as a "disinterested third party" in confirming the date on which an article was delivered. Tr. 3/849; USPS/DFC-T1-29. These customers often do not view their relationship with the recipient as cordial. *See* Tr. 3/848–49. Unfortunately, without customers' knowledge or consent, the Postal Service routinely turns over hundreds of thousands of pieces of return-receipt mail to high-volume recipients such as the IRS and allows these recipients to sign and date the return receipts under conditions that prevent the Postal Service from ensuring that the correct date of delivery has been placed on each return receipt. *See generally* DFC-T-1 at 20–22 and USPS/DFC-T1-12, 15, and 17(a). The Postal Service's conduct amounts to fraud. Indeed, as I described in my response to USPS/DFC-T1-14, a customer actually could be prejudiced if the Postal Service has allowed a recipient to apply an incorrect date to a return receipt, since a return receipt purports to reflect an official, accurate date of delivery. *See* USPS/DFC-T1-14(b). Customers also often receive slow service in the return of their return receipts. *See* DFC-T-1 at 19–21. And, the Postal Service often sends back return receipts that do not contain a legible signature. DFC-T-1 at 18–19. The "print name" block, which supposedly was added to the Form 3811, Domestic Return Receipt, to add value to the service, usually is empty. *Id.* In sum, the Postal Service is collecting a fee for services that it is not providing. Moreover, by passing off costs of

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[1] Contrary to witness Plunkett's suggestion, for customers who prefer to minimize the burden on the recipient, my option (2) would impose a lesser burden on the recipient than return-receipt service would. USPS/DFC-T1-13 (revised response dated February 6, 1998).

processing return receipts onto high-volume recipients such as the IRS, the Postal Service is collecting a fee for labor costs that it does not, in fact, incur.

C. DUPLICATE RETURN RECEIPTS DO NOT PROVIDE CUSTOMERS WITH AN ADEQUATE REMEDY WHEN A CUSTOMER DOES NOT RECEIVE A PROPERLY COMPLETED RETURN RECEIPT.

Duplicate return receipts are not necessarily a solution for customers who receive poor return-receipt service. First, to file for a duplicate return receipt, a customer must wait in line at the post office — often a major inconvenience. DFC-T-1 at 24. Second, in the case of improperly dated return receipts, customers must first suspect that the date on their return receipt is incorrect and then be aware that a duplicate return receipt would be completed based on a separate, possibly-more-accurate delivery record. *Id.*; USPS/DFC-T1-17. Third, the duplicate return receipt is free only if the mailer chose to have his mailing receipt postmarked; otherwise, he must pay $6.60. *Id.* Fourth, in the case of Mr. Popkin's state tax return, even the duplicate return receipt was routed to the agency against whom Mr. Popkin was trying to protect himself when he purchased return-receipt service. *Id.* The Postal Service should not be allowed to escape from concern about the poor quality of return-receipt service by suggesting that customers can simply file for a duplicate return receipt and leave the post office with a smile on their face.

D. THE COMMISSION SHOULD DENY THE POSTAL SERVICE A FEE INCREASE FOR RETURN RECEIPT UNTIL THE POSTAL SERVICE CORRECTS THE SERVICE PROBLEMS.

My testimony provides insight into the variety of problems that plague return-receipt service. The Postal Service willfully ignores its own operating procedures and regulations, denying customers the service for which they paid $1.10. Customers often have no effective remedy for the Postal Service's misdeeds. Now, despite these problems, the Postal Service requests an increase in the fee for return receipt to $1.45. This fee increase is totally unjustified.

Before the Commission considers an increased cost coverage for return receipt, the Commission should require the Postal Service to conduct a study on the quality of return-receipt service, as the Commission suggested in Docket No. R90-1. PRC Op. R90-1 at ¶ 6576, fn. 10. Since the Postal Service refuses in rate proceedings even to acknowledge the problems that exist with return-receipt service and instead challenges inquiries seeking to discover the quality of the service, the Commission should withhold an increase in the cost coverage until the Postal Service has provided reliable evidence substantiating its claims about the high value of this service. The need for a study on return-receipt service that the Commission found in Docket No. R90-1 persists today. Unfortunately, the public has no remedy with which to stop the Postal Service from inflicting a fraud on customers who use return-receipt service. Therefore, the Commission should exercise its power through the ratemaking process to deny an increased cost coverage for return receipt until the quality of the service improves.